RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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April 9, 1980 **LETTER 780**

Mar. 28, DJIA 777.65; PTI 1091; A-D ratio –25.20
April 3, DJIA 784.13; PTI 1103; A-D ratio –24.30

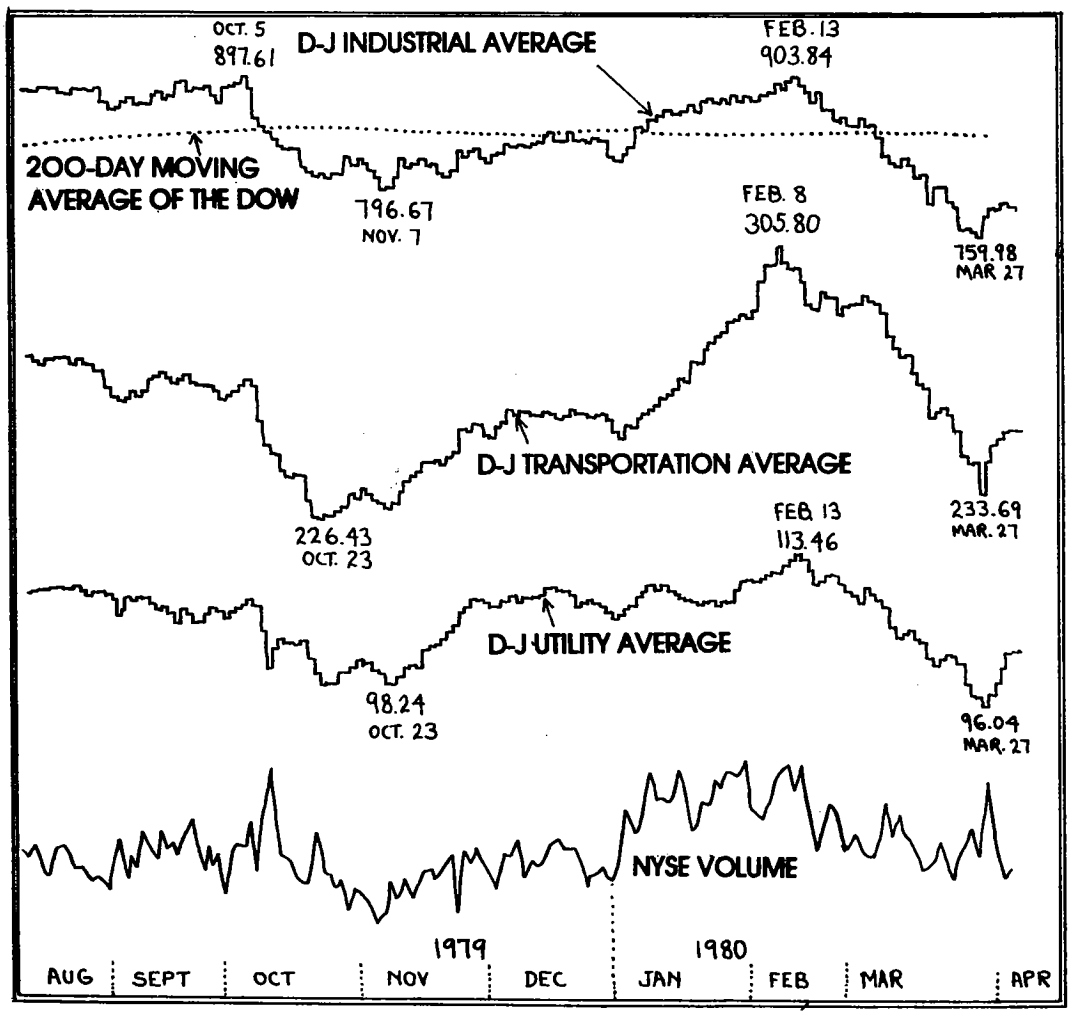
OFF MY CHEST: Every morning I come into my office at around 6 AM, and the first thing I do is look over the subscription forms that arrived the previous day. Most of them come in our regular return-envelope forms, but many have notes on them and many new subscriptions come in on personal stationery. I'm always fascinated to see who these new subscribers are, what they do, where they come from.

And it's amazing to me. Cattle ranchers from Wyoming and Nevada, cotton men from Texas, an advertising woman from Madison Avenue, a priest living in a West African leper colony (do you believe that!), a group of 7 men from a New Mexico penitentiary, the president of a Louisiana oil company, a retiree in Sun City, California, an exporter in Hong Kong with his own 30-story building pictured on his stationery, an Arab businessman, a well-known film producer, a woman in Des Moines whose husband has just died and who must now take care of the family assets, a NYC retailer, a college student in S.Dakota, and on and on.

FRONT PAGE COMMENT: I run Fibonacci cycles for the stock market, and they've been performing pretty well over the last few years. My cycles called for a low area in late-March, and that sets up the possibility in my mind that the March 27 low of 759.98 may hold for a while. I don't think that 759.98 is a major or historic market low, but it could hold for a while. There was a lot of downside compression visible on Wall Street by late-March, and it could take time to work that technical compression off.

My market cycles turn up from here, and they are due to peak around late-July or August of this year. From there, I show a severe down-cycle into October, 1980. Why am I writing all this at this particular time (when I seldom write about cycles)? The reason is that I am thinking in terms of that old adage, "The market will do whatever it has to—to drive the greatest number of investors 'up the wall'."

All right, how could the market drive investors up the wall from here? This is how: we could see a sideways, "no-profit," meandering rally from here, an aimless, frustrating move lasting through the spring and perhaps even the summer. The 759.98 Dow low could hold—even as business turns sour and as corporate profits fall. Then we would hear people remarking, "Say, isn't this market holding beautifully? Isn't this a fabulous market? Just look at the way it's hanging on in the face of rotten business news!" Everybody would agree that they were witnessing a marvelous performance (a performance that could be helped by a peaking of interest rates over the next few weeks or so—see next few paragraphs).



Then my cycles would peak around late-July to August. And in the fall the second big smash of 1980 would come to Wall Street. Following which we would have the long awaited, the true market bottom. Anyway, that's what I'm seeing through the haze of my California crystal ball.

Second thought: Although I don't believe the stock market is particularly interesting here, I do think the money market is interesting. I believe there is a very worthwhile risk-

"Russell," I tell myself, "you'd better not mess it up, because a lot of these people take you seriously, and you're talking about their money and their savings and their businesses and their lives." And then another voice says, "Cool it, take it easy. All I promise is to do the best I can do. That's all I offer, and that's all I've ever offered. And I'm going to be wrong at times like everyone else in this business, but if I have humility I won't stay wrong for long. And by using my brains and my intuition and God's help, and a few other things I might even be right a lot more often than I'm wrong."

At any rate, this is a tough business, and you can count on the fingers of your two hands the number of market letter writers who have lasted say 15 years or longer. If you've got a weak spot, if you've got a kooky area, if you have a prejudice or a hidden fear, the market will find that weakness and knock you out of the box (and the business) so fast your head will spin. Well, I got that off my chest, and if that helps subscribers understand people like me and other old-time survivors like Joe Granville and Jim Dines and Harry Schultz and Edson Gould, so much the better.

THE MARKET: What I think we are seeing here is a telescoping of market activity, a shortening of the swings and a concentration of events. This type of action is particularly difficult for investors because it lures them into repeated trading action. My experience with most short-term trading (unless you are a NYSE member) is that for every three or four profitable trades you make, you will come up with a single very costly trade, a trade that will wipe out all your previous profits and provide you with a substantial overall loss! Even worse, these periodic trading losses tend to upset your perspective and shatter your confidence in yourself and the market. Final result: when the real investment opportunity arrives you will be smarting with your trading losses, and you will not have the nerve or the desire to make the truly profitable move.

By any reckoning, the losses during the first quarter of 1980 were fast and furious. The Dow gave up about 15%, the NYSE Composite lost 18%, and the AMEX and NASDAQ lost almost 30% each. On March 27 the markets appeared acutely oversold, and the market rebounded sharply. From all quarters advisories and commentators "identified" a major bottom. I remain skeptical. My data does not show that we are "there" yet.

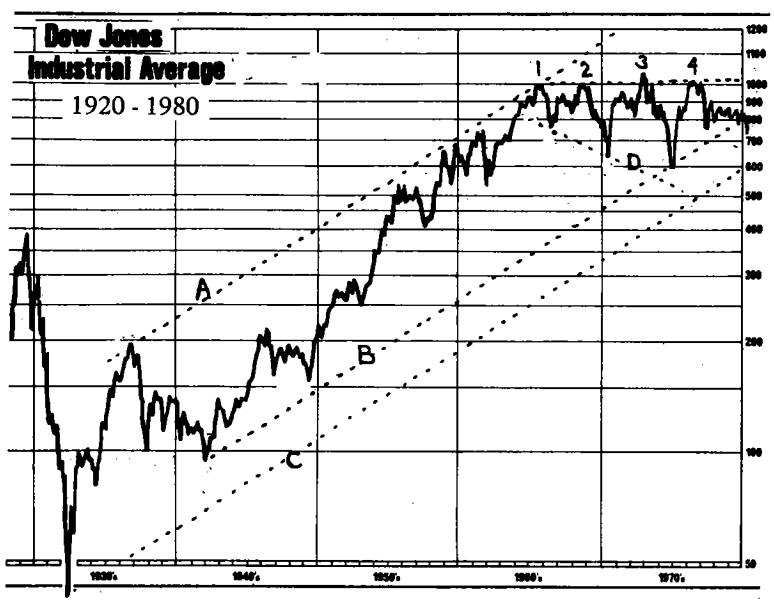
The most interesting and probably the most important phenomenon of 1980 so far has been the action of the D-J Industrial Average during the week of March 24. At this time the Dow broke below the massive trendline which connects the 1942 and 1974 low. This action can be seen on the chart at right. Note parallel trendlines A and B. This great upward channel (formed by these two trendlines) has contained all the Dow action since 1942. But when the Dow broke below 800 two weeks ago, the picture changed.

My friend Bob Prechter (an Elliott Wave expert and editor of "The Elliott Theorist") is of the opinion that the break implies that the corrective Wave 4 of a giant bull market has not yet been completed. As Bob sees it now, the completion of corrective Wave 4 could take the Dow below the 1974 low of 577 and down to 520.

Bob could well be right. He's an excellent market student, and I always study his Elliott interpretations with the greatest interest. But the reason I include Prechter's Elliott observations here is that it helps to erase any preconceived notions I may have as to where this decline "must" stop. As far as I am concerned, the final termination could come at Dow 750, 700, 600 or even (as Bob suggests) 520. The fact is that no man on the face of the earth knows where or when THE bottom will come. For further thoughts on this, turn to the "Front Page Comments."

reward play here–from Treasury bills into two or even three year Treasury notes. Here's what I suggest. Take half of your T-bill money here and move it out into T-notes of maturities around 1982 or 1983 (the notes are all listed in the WSJ). For instance, say you sell half your T-bills and buy the Treasury 9's of August, 1982. These notes sell at just under 90 to yield 14.25%. If you do this, two things can occur. (1) Interest rates go still higher. In that case, you're "locked in" to a 14% rate on your T-notes, and you simply wait for the maturity date and then collect your money (plus a capital gain). And that isn't any great hardship. (2) Or, the money rates decline and your T-notes take off on the upside. Then you can sell at a profit. Or, if you prefer to wait until the maturity date, you take a capital gain (as the notes mature and sell at 1000 again).

This is the kind of move I like–negligible risk and the guarantee of a nice profit. "But why should we do this now?" you ask. Do it now because I think there is a good chance that we're seeing the top, or very near the top, on short-term interest rates (even the intermediate and long-term bonds look ready to break out and give bullish signals). A second reason why I like this play now is that we're doing it *following a double bond market crash*. Following a crash, the odds on a 50% recovery are reasonably good. Third reason: gold looks weak to me, and when gold is weak, the market is telling us that inflation is ebbing. When that happens, it's "up" for bonds. (Note: for pros and sophisticated subscribers who know how to place stop losses, go out to 1985-88 on some bonds. The risk is higher, but so are the potential profits). My BULL SIGNAL for bonds: the Treasury 8's of 1996-2001 hitting 70. Watch your daily quotes.



The recent March 27 lows were 759.98 for the D-J Industrials, 233.69 for the Transports, 96.04 for Utilities. At those lows the market looked short-term exhausted. It was a straight-line decline with not so much as a 3-day rally from the February 13 peak.

At the March 27 lows my indicators did not suggest a **long-term major** (cyclical) bottom. The odd lotters were less bearish on March 27 than they were at the February highs (not a good sign). My ratio of NYSE specialists' short sales to odd lot short sales

was still negative (too much specialist shorting, not enough odd-lot shorting). I also felt that too many advisories were calling for a bottom and a "great" trading opportunity. Maybe it will be, but I didn't like all that "professional enthusiasm."

When a **major** market bottom arrives, there is usually so much bad news around that the majority of the advisors can't muster up the nerve to call for buying. Buying stocks seems like the last thing you want to do when the real bottom arrives. Around March 27 (and right now) it feels easy to purchase stocks. They "feel" like long-neglected bargains. That's not what they felt like at the 1962 or 1970 or 1974 lows.

At any rate, let's give ol' man Wall Street some breathing space. Stocks were pole-axed between mid-February and late-March. If you had ridden that decline down with a stock portfolio, you would probably be out 25% on your capital now. So a rally "could be" in the making. Wall Street could be trying to get back off the canvas. Let it. It's entitled to. But we'll continue to sit tight. And don't be surprised if the Dow sinks down to "test" the 759 low (if it does, I don't think the A-D will confirm).

Turning to the daily chart of the PTI and the A-D ratio (page 3), note that the PTI lost a whopping 128 points between February 13 and March 27. That's a greater loss than was sustained during either the 1978 or the 1979 "Massacres." Now the market is attempting to get a rally phase going, and as described in the "Front Page Comment" piece, it has an up-cycle to help it. So I want to watch the PTI carefully, I want to see how well it does after its 128 point smash.

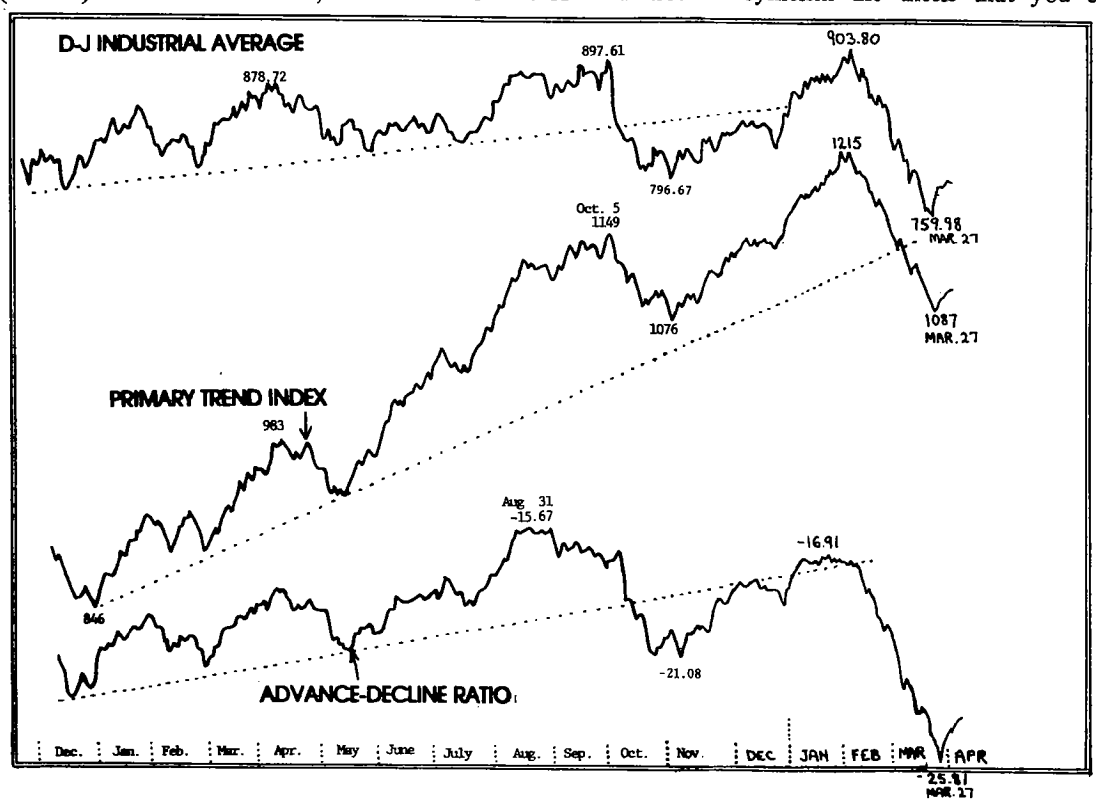
The A-D ratio lost 8.90 points during the February-March collapse. I classify any decline of 5 POINTS OR MORE (without an intervening rally of 1 point) as a "selling panic." And that's just what we saw during January to March. The panic was set up, technically, by the failure of the A-D to confirm the new high (903.80) in the Dow. So far, the rebound in the A-D has not been particularly impressive. An impressive rise is a day that gives me .70 or more increase in the A-D. We haven't seen anything like that yet. We should see two or three such days if this market is going to do a "gang-buster" on the upside.

MUSINGS: There are a few things I want to get off my mind (and on to the minds of subscribers) so I might as well start now. First, all that's supposed to be inflation is not inflation. What I mean is that very few of us are truly tied to the Consumers Price Index (CPI). The reason we're not is that a great deal of the CPI consists of discretionary spending, items that we may buy but items that we **do not have to buy.**

In other words, I don't have to take a vacation in Europe, I don't have to go to a restaurant twice a week, I don't have to buy a new suit once or twice a year, I don't even have to own a car. If I want to cut way down on my discretionary spending, I can do it. And that's one way I can bear inflation. Furthermore, if times get tough in these United States we're all going to be amazed to see how far discretionary spending can drop. For instance, those of you who lived through World War II know that any car can run beautifully (with good maintenance) for 10 years; you don't have to buy a new car every other year. For instance, my family has not eaten beef in over a year and-a-half, and we're all doing fine. For instance, I own a Moped, and I often take it to town. I get 120 miles per gallon on this little machine. For instance, latest statistics show auto driving in the West has dropped 20% over the past 6 months. Those all represent declines or omissions in discretionary spending.

My conclusion: a lot of people are beating inflation by cutting back on spending. If we go into net deflation, they're going to cut back a lot more.

Next comment. I grew up during the Great Depression. I grew up with a healthy respect for work and a healthy respect for the measure of work, which is–money. Thus, I always viewed with cynicism the thesis that you can create real wealth through borrowing and inflation. I was skeptical because I knew that ALL inflationary periods in world history have ended with panic and deflation. And I knew that ALL loans are eventually either paid off or reneged.



This nation has two diseases built into it today. The first is massive Government payrolls and the Government deficit spending. The second is the civilian debt (including corporate debt) and consumer credit spending. As I see it, the spending orgy and the debt-building orgy are both heading into a brick wall. That brick wall is a shrinkage (cut-off) of credit, plus a rising (prohibitive) cost of carrying the debt.

I open a page of the Horsey chart book (which shows corporate charts and capitalization). Turn to any page, page 31 for now, and read: Beatrice Foods, debt-661 million. Belding Hemingway's debt is $11 million. Becktin Dickenson-$81 million. Beker Industries debt is $57 million, Bemis debt-$81 million. And on and on and on. The total cost of servicing all US corporate debt is estimated at $145 billion! Can the debt be serviced in the event of a severe recession-depression? I don't know. But I doubt it.

I've talked so much about Government debt I really shouldn't talk any more about it here. But it's rising. If we go into recession the tax short-fall is going to send the deficit even higher. And with current interest rates, the Government's costs are rocketing. I can see the cost of carrying the Federal debt hit $1 billion a week within a year or so. Can the nation survive that? I don't know.

Third item: the consumer, where is he? What's happening to him? Real spendable income dropped 1.4% in February following a 1.3% drop in January. The consumer is getting squeezed. He's backing up against the wall. And he's going to have to CUT DOWN ON HIS STANDARD OF LIVING. The consumer stocks, the retail stores, the autos, the appliances, the fast-food chains, the hotel chains, they're preparing for the big cut-back. The stocks are preparing by making new lows. When the American consumer realizes that his bucks are fetching 15%, 16% in interest, when he realizes that capital is the hottest thing around, when he sees oil prices sliding a bit, when he sees "Giant Sale" signs posted on all the store fronts, he's going to realize that cash is the hottest item around. And he's going to rush to save some (if he can). How will he save? Simple, he'll cut way back on his discretionary spending.

What's all this leading up to? Frankly, I'm beginning to think that a depression is unavoidable. I think we've run the debt party and the deficit party into the ground. The temperature of the patient, interest rates, have spelled the end. We may possibly, conceivably, avoid a depression for a while longer–a year or two, but don't count on it. The consumer is confused now, he's frightened, he's been lied to, he's been bamboozled, but he's beginning to see the picture. If the consumer cuts back, if he pulls the plug on his spending, then the economy has had it.

"Defense spending," you retort,"won't defense spending pull us through?" Defense spending is only 5% of the GNP. No, it won't do it. Defense spending may run up further deficits, but it won't hold up the economy. Nevertheless, I do see massive defense spending coming, and that spending may give us a split economy. I can see the consumer economy in a state of slump, semi-depression, with the Government channeling its spending into the defense sphere.

But the big thing I see, the shocker would be the US Government being forced to cut back on its own spending, being forced to try to balance its budget, being decimated by events. What events? The event of the decade, and that would be a drastic drop-off of tax receipts. The well would finally run dry. This is what I believe the nation faces, and I don't believe the Government will be able to resort to deficit spending to get itself out of the predicament. Washington won't be able to resort to deficits because they won't be able to sell bonds in the quantities needed, and they won't have the public mandate to even try.

My own guess is that the American people are now totally fed up with the way their government is handling itself and the economy. And the voters are slowly coming to the conclusion that they want (and need) a change. In time there is going to be a cry to "Cut back, cut out," to get rid of huge chunks of useless government. In time this HAS to happen.

Even if you are skeptical of absolutely everything I've written in this section, consider this. The losses in the markets over the past few months have been huge. Those losses MUST SHOW UP in the economy. Ned David of J.C. Bradford has confirmed my thinking with the following figures. There are $1.3 trillion in mortgages outstanding. There are $1.6 trillion of corporate, municipal and Treasury bonds outstanding. These mortgages and bonds are down a conservative 20% for a loss in value of $512 billion dollars. The stock markets (based on the Wilshire 5000 Index) have given up another $160 billion. That's a total of over $650 billion lost. The US alone owns about 260 million ounces of gold. The drop from 850 to 500 represents a loss of around $90 billion. I'm not even going to factor in the huge losses suffered by commodities (copper, silver, meats, grains, woods) since the first of the year. But my guess is that total market losses all around are far over a trillion dollars. That's bigger than the total US budget. That's bigger than the whole Eurodollar market. It's far bigger than the US money supply. It's a staggering loss of values. And its effect will have to surface.

Suppose someone were to ask, "Russell, what is your single surest prediction about the period ahead?" What would I retort? I'd say this: "I see a major change coming in the American's standard of living. I see this change coming regardless of whether inflation or deflation is in the saddle. Either way the consumer is heading into a squeeze. Either way, the consumer faces a loss of purchasing power. We've "spent it," and now, through the markets, we're losing more. And that has got to mean a lowered standard of living.

What do we do to survive this situation? We take one thing at a time. Right now I see a pressing need for **liquidity**, for **cash**. So I advise cash and liquidity. When that changes I'll come out with my next recommendation. But–one thing at a time!

NOTES & QUOTES: The dollar (with its juicy short-term yields) has now turned super-strong. The Swiss franc, the German mark, the yen, they've all fallen to almost two-year lows. A few years ago foreign subscribers used to come here and tell me what a picnic they were having, buying whatever they wanted in the US for what seemed like half-price in their own hard currencies. I told them to have a ball, because it couldn't last, the dollar was undervalued. Now the game is coming to an end, but a new problem will arise. The US exports are going to get hit. And foreign products are going to look cheaper–so the monetary see-saw goes on.

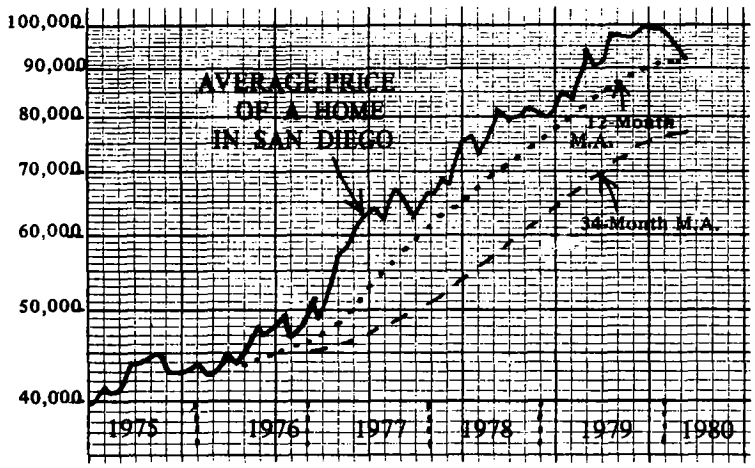
* *

The bear market in commodities is growing into a monster. I mean the commodities are going down like lead balloons. Looking at the contracts, June cattle down 18% in 5 months, May corn down 24% in 8 months, April hogs down 27% the last year, the beans down almost 30% in 8 months, wheat down 18% since the February high, gold and silver caved in, copper down over 40% since February. All this means billions of dollars lost to farmers and metals holders and producers. Meanwhile lumber has crashed 25% since January. By July-August I believe we'll know the meaning of what the markets are now telling us. If it's going to be a mild recession, I don't see it.

* *

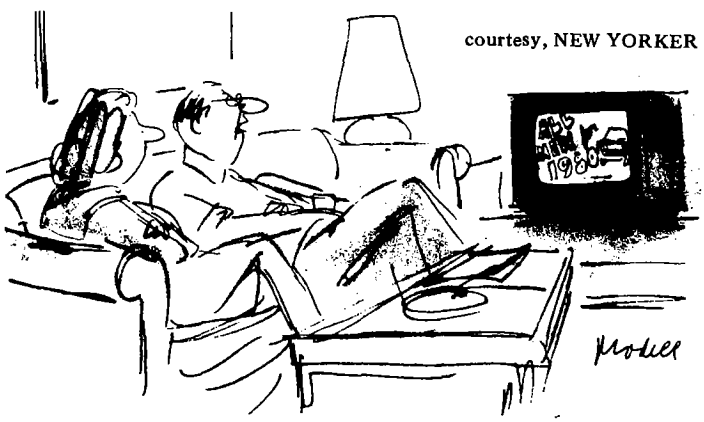
The gathering recession is beginning to bite. One third of the State of Washington's plywood workers are now out of work.

And 12 of Oregon's 76 plywood mills are now shut down. On the auto front, production of trucks in March was down 58%. Domestic production of cars in March was down 27% from the like 1979 period.



I've shown this chart before, but it's particularly interesting now. It's the trend of the average single family house in San Diego (one of the previous hot housing areas of the nation). The latest (February) figure is $92.1 thousand, down from the all-time high (December, 1979) of $99 thousand.

The average price is now just above the 12-month average which is $91.8. If the 12-month average is cracked, I will take this as a very bearish omen. The reason is that the great bulk of the US consumers' savings and capital is in housing. Many citizens are borrowed to the hilt with first and second mortgages. If home prices come down say 15-25%, people are going to feel a lot poorer. It's going to exert a very bearish psychology on the consumer. So I'm going to watch the housing market carefully from here on. Already, transactions have slowed drastically, a preliminary to prices breaking.



courtesy, NEW YORKER

"You know something? I'm already tired of the eighties."

* *

The bigger the debt, the faster the debt creation, the greater the temptation to lie and deceive. Take the US Government. Thanks to Market Logic (3471 N. Federal Hwy, Ft. Lauderdale,Fl 33306) we have a glimpse into the deception known as "Off Budget" spending. This spending is handled by the Federal Financing Bank and it does not appear as an official budget deficit. Market Logic has just published this table of official Federal deficits together with the "off budget" spending which (final column) shows the true total Federal deficits. My comment: as night follows day, this kind of Federal deficit spending is doomed. It cannot go on, because the markets can't (or won't) handle it much longer. The great budget orgy is moving into its final act.

A DECADE OF DECEIT (Billions of Dollars)

Year	Published Budget Deficit		FFR "Off-budget" Spending		True Deficit for year
1972	$ 23.4	+	$ 0.0	=	$ 23.4
1973	14.8	+	0.1	=	14.9
1974	4.7	+	1.4	=	6.1
1975	45.2	+	8.1	=	53.3
1976	66.4	+	7.3	=	73.7
1977	45.0	+	8.7	=	53.7
1978	48.8	+	10.3	=	59.1
1979	27.7	+	12.4	=	40.1
1980 estimated	39.8	+	16.8	=	56.6
1981 proposed (1)	15.8	+	18.1	=	33.9
1981 revised (2)	20.0	+	19.0	=	39.0
1981 promised (3)	-0-	+	20.0	=	20.0
1981 M.L. Estimate	10.0	+	20.0	=	30.0

*Reported deficit as a percent of true deficit.
(1) As proposed in President's January budget message to Congress.
(2) Congressional estimate of January proposal revised for higher inflation.
(3) President's newly announced economic program.

* *

Someone once said that "On a deep level life is a tragedy, on a surface level life is a comedy." *Harper's* (April) published an article by Mat Stevenson entitled "Outline of History" or "Everything you need to know." I include a segment of it. What do you do, laugh or cry?

CHINA

3000 B.C.–1939 Mysterious East. Known primarily by missionaries.
1941–45 Faithful ally.
1949 Lost to Communism by Senators of low cunning. A Soviet lackey.
1950 Clients invade South Korea.
1965 Clients invade South Vietnam.
1967 Developing missiles capable of reaching Disneyland.
1972 Pacified; site of the only Republican primary.
1976 A proud people.
1978 Enemy of our enemies.
1979 Buffer against Russian hegemony.
1980 Most favored nation. Deserving of American weaponry.

ISRAEL

1948 Triumph of a brave people; threatened on all sides.
1967 Fought and won just war against Arab infidels; valiant.
1973 Saved by American arms.
1975 Intransigeant; oppressor of Palestinian rights and aspirations.
1978 Invader of Lebanon.
1980 An economic drain.

SOVIET UNION

1941–45 Ally of convenience.
1945–48 Godless conqueror of Eastern Europe.
1949 Exporter of iron curtains.
1962 Brought the world to the brink.
1972 Peaceful coexister; the other superpower; consumer of grain and Pepsi.
1976 Patron of Cubans in Africa; expanding naval power.
1979 Signed historic peace initiative in Vienna.
1980 Butcher of Kabul.

EGYPT

1948 Nest of treacherous Arabs; dedicated to Israel's extermination.
1972 Russian satellite in Africa.
1973 Invades Israel.
1976 Moderate Arab nation.
1979 Israel's only friend (except for the United States).
1980 Given billions in aid and armament.

JAPAN

1941 Surprised Pearl Harbor.
1945 Graceful defeated enemy.
1957–68 A nation of junk merchants.
1977 Wiped out U.S. steel industry.
1978 Made mincemeat of the dollar.
1979 Flooded car market; reluctant to give up Iranian oil.
1980 Will do anything for a yen.

CAMBODIA

1965–70 Neutral nation with a charming prince.
1970 Keeper of the sanctuaries and the Ho Chi Minh Trail; a Vietcong collaborator.
1975 Pirate of the *Mayaguez*; supports regime of Pol Pot; genocidal; nation ruled by cannibals.
1979 Victim of Vietnamese aggression; deserving international support
1980 Ruined nation.

SOUTH KOREA

1950–53 Saved from Communist rapacity by United Nations.
1954–77 Prosperous; under the nuclear umbrella.
1977 Inclined to throw poets in jail.
1979 [President gunned down while eating his dinner.]
1980 Another embarrassing ally.

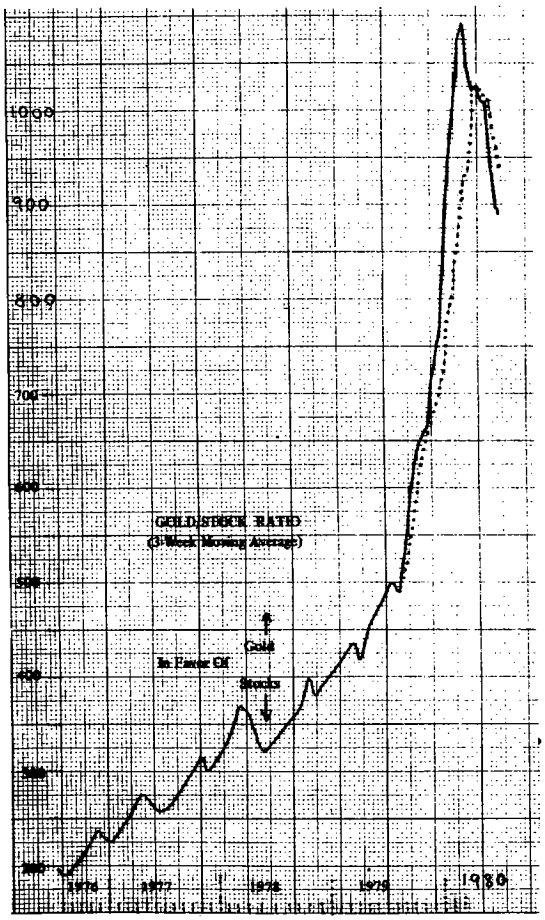
GOLD/STOCK RATIO: In Letter 777 I noted that my gold to stock ratio (following a four year rise in favor of gold) had reversed. This meant that common stocks were starting to outperform gold on a *relative strength* basis.

This ratio is very simple: it is obtained by dividing the NYSE Composite by the price of gold (weekly basis). The heavy black line on the chart (page 6) is a three-week moving average. The dotted line is an eight-week MA of the same ratio. As you can see, the three-week MA has now plunged well below the eight-week MA. This signals a decisive turn in favor of stocks over gold.

I warned at the time that this is simply a relative strength measure. The ratio is not saying "buy stocks and sell gold." I warned that BOTH gold and stocks could go down together, but stocks would simply go down less than gold. This is exactly what has happened.

I expect that this ratio will now come down for many months. The reversal of a four-year trend in relative strength is no small thing. If I had to guess I would say that this reversal in favor of common stock relative strength will go on for at least a year. When it is over, gold could be ready to enter its third and final upward phase.

But until gold relative strength is superior to stocks on a relative strength basis, forget about speculating in gold. By the time my index hits its low, I expect the public to have forgotten about gold. It will be "old hat," a "nowhere" investment. And that is the point at which WE get interested in loading up on gold again.



GOLD SILVER: Silver has collapsed, losing (at its recent low) roughly 80% of its peak value. But gold is much more important at this time. I think gold could be telling us the BIG STORY of the early 1980's. Here's why I say that.

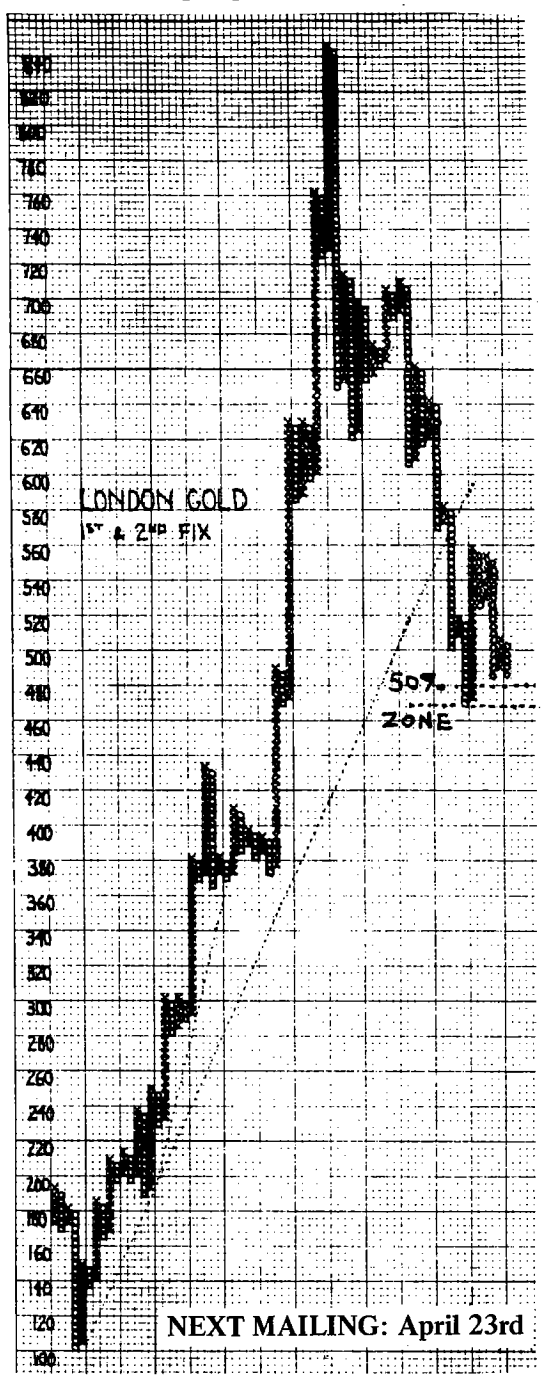
The advance from the 1976 low of 103 to the 1980 high of 850 added 747 points to the price of gold. The halfway point for that advance is 476. Note on the chart that the current gold smash took gold to just about that area. My point & figure chart shows that the last decline carried the gold price to 472. A weak rally then advanced gold to 560. Why do I say "weak?" I call the rally VERY weak, because, following the panic in gold, the price should have recovered at least 50% of the losses (gold should have rebounded to 600 if it was at all strong). Almost all post-panic rallies recover at least 50% of the panic losses. The gold recovery failed by a wide margin.

Technically, the big question now is–can gold manage to hold half or more of the gains registered during 1976-80: If it cannot, if gold breaks decisively below the 476 level, it will be bearish for the metal. A breaking of 476 would suggest a testing of the 380-420 level, and that would be close to the top of my stated "target" for gold (more about that if we get there).

But a decisive breaking of the 476 level for gold would have far larger implications than simply a decline for the metal. I think a drop below 476 would be the "golden barometer's" way of saying that inflation is being socked head on, and that deflation is making its appearance. This could bring on shock waves across the globe, and it could precipitate major problems for the US and the world.

I'm not going to go into all the ramifications of a deflationary period except to say that the current total US debt of roughly $5.5 trillion could become (if it is not already) absolutely unmanageable in the face of deflation. I will write a piece on that if gold breaks 476. I have already titled the piece: it will be called "The Trap of the Century."

An aside: the gold picture now offers a beautiful lesson is psychology. Three months ago everyone was talking about getting into gold at 800 because the next stop was 1000, and then 2000 and 2400. Now, with gold in the 475-500 area, everyone is wondering whether gold can hold near or at 500. Psychology goes with the price. Let gold go down to 380-420 and people will be talking about 250 gold. Let gold break 250 amid some deflation, and they'll be talking about $35 gold again. After a quarter of a century of watching people blabber about price levels and targets, I've learned to write 98% of it off as pure nonsense.



There's only one group of people that I listen to, and it's the "market people," the ones who live, love and breathe markets. And there are few, very few of them!